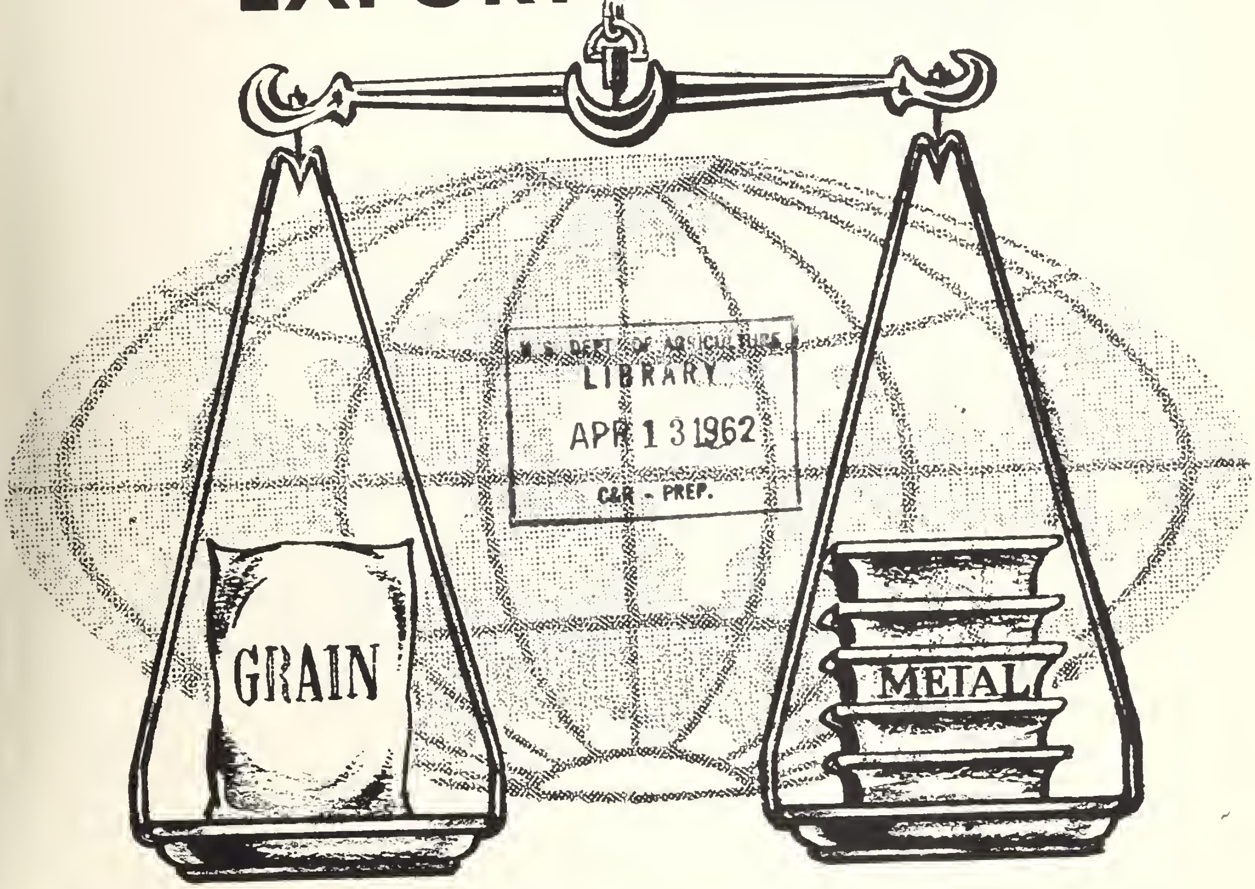
The BARTER EXPORT PROGRAM



A REPORT
from the Trade
to the Secretary
of Agriculture

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FOREWORD

This report suggesting how the USDA barter program might be improved and expanded is the outgrowth of a public meeting (which USDA held on May 22, 1961), the selection of a task force from the varied business firms and agricultural groups which have worked with our barter program, and a full week of task force meetings which began on June 5, 1961. The task force members served at their own expense and my appreciation is extended to every one of them for their energetic, thoroughgoing, and constructive survey of USDA barter.

We are in the process of evaluating their helpful and extensive suggestions in the broad frame of reference of other export programs and national policy. In the near future, a revised barter program will be announced.

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Concepts and Conclusions

The task force which was appointed by the Secretary of Agriculture earlier this year to study the barter program, reached general agreement on a surprisingly large number of recommendations. On some major issues, however, there was sharp disagreement by some members. Where this existed, the dissenting views, with reasons therefor, are reported in this publication immediately following the consensus recommendation and its rationale.

The task force's hard-core conclusions were that barter is an effective method of moving U. S. agricultural products into export markets, while at the same time accomplishing other national objectives of the United States, and that barter should be expanded wherever it can maximize total agricultural exports without unduly disrupting regular dollar sales. The specific recommendations which follow are all aimed basically at accomplishing a desirable increased level of barter exports.

The most difficult problem faced by the task force, and the one which elicited the most significant recommendations, was how to channel exports under the barter program so as to realize a major part of the additional exports the program is capable of generating, with a minimum of interference with U. S. cash sales.

There was nearly unanimous agreement that the existing cumbersome system ("X", "A", "B", and "C" commodity-country categories; bilateral and multilateral requirements; intricate additionality data) curtails desirable exports and tends to interfere with normal trade.

The task force solution is to establish only two commodity-country designations — "R" (restricted) and "O" (others); to eliminate "multilateral" requirements and require "bilaterals" only in special cases, such as part of "Food for Peace" programming; and to require no special showing of "additionality" once the "R" and "O" designations have been assigned. The designations would be made after obtaining the advice of interested and qualified members of the trade, and would be reviewed by a trade-USDA group every 6 months. The "R" designations would correspond roughly with the present "X" category, but with some shifts to "O" in appropriate cases. All barters would be "open-end", except for the special bilaterals mentioned above.

It was the consensus view that barter exports should be permitted only to "O" destinations with the exception that exports would be allowed to "R" destinations (and to "R" destinations only) when Commodity Credit Corporation will receive reimbursement from another U. S. agency for the items acquired in exchange and for that part of the value of materials (over and above the value of raw materials) which accrues as the result of domestic processing. There were several dissenting views. One firm opinion by an exporting group favored no exports to "R" destinations, with possibly a somewhat broader "O" coverage. Another exporting group favored retention of the present rules in their entirety.

As the preceding paragraph shows, the problem of export rules for bartered agricultural commodities leads directly into the second most important subject considered by the task force — i.e., the types of barter transactions which should be permitted. The task force urged USDA to take a broader view of the collateral objectives which the barter program can accomplish in addition to increasing U. S. agricultural exports. It recommended that special attention be given to barter procurement of items needed by other U. S. agencies which otherwise would be bought for dollars; that vigorous use be made of barter where it can maintain or expand U. S. trade relations, especially with less developed countries or to combat Communist Bloc penetration; and that USDA explore cases of known surpluses in less developed countries (e.g., cocoa and coffee)

to determine whether such products, if taken in exchange for U. S. agricultural commodities, could be used in assisting needy people in the United States or in foreign aid programs.

In determining what materials should be acquired for stockpiling, the task force recommended that consideration be given to the following objectives: (1) Acquisition of materials of which the United States has, or in the future will have, a substantial deficit; (2) removal of surplus materials from world markets without increasing productive capacity; (3) increasing or maintaining employment in distressed areas of the United States through use of domestic processing facilities; (4) assistance in keeping U. S. domestic mobilization base of vital strategic industries in a healthy condition; (5) preemptive buying; (6) countering Communist Bloc economic penetration by improving trade relations, especially with the less developed countries where trade can build mutual respect; (7) providing economic development assistance to less developed countries, thus lessening their dependency upon us for outright financial assistance; and (8) achievement of an unusually advantageous disposal of agricultural commodities.

The task force also recommended that other than strategic materials be accepted, particularly where this will serve objectives (6), (7), or (8) listed above.

It was the consensus of the task force that present attitudes toward the supplemental stockpile should be re-examined, and that it should be recognized as a storehouse of materials essential to U. S. long-term economic survival. It was proposed that the name "Economic Survival Stockpile" be adopted as more meaningful and more indicative of the true nature of this reservoir of assets than the vague appellation "supplemental."

A central theme of the series of task force meetings was that of program simplification. It was pointed out that the many and complex restrictions now in effect not only hamstring program operations, but also, by severely limiting outlets for agricultural commodities, tend to increase the risks of the agricultural export firms and the discounts necessary to move the commodities. It was the general consensus that two major ways of reducing the real impact of barter exports on cash sales were: (1) To have as broad a list of commodities as possible available for barter and (2) to keep program restrictions and complications to a minimum. In this connection, it is of considerable interest to note the almost unanimous recommendation that exports of free market stocks of surplus commodities be permitted under barter contracts. The task force repeatedly emphasized the need for strong leadership by USDA in carrying out an effective barter program.

Barter Task Force Recommendations

Agricultural Commodities

Availability of Commodities

1. All CCC-owned or controlled commodities which are available for any disposal program other than cash sales, short term credit, payment-in-kind and domestic donations should also be available for barter. Exceptions to increase commodity availability for barter should be made when USDA finds it is in the national interest. In periods of emergency (e.g., natural disaster) foreign donations may take precedence.

2. Agricultural commodities in surplus supply in the free market should be available for barter to the extent permitted by law.

Reasoning (for Nos. 1 & 2): The soundest way to improve the barter program is to make it more flexible. A wider selection of agricultural commodities means greater flexibility. More export firms will compete for participation in the barter program. Competition will tend to channel barter exports within the range of world market prices in co-ordination with straight dollar sales. Collateral advantages in the case of commodities which might otherwise end up in CCC's inventory will be CCC savings in storage and take-over costs.

3. In the absence of special circumstances, CCC should make barter commitments against inventory stocks of commodities in relatively short supply only if the commodities will be acquired within a limited time specified by CCC.

Reasoning: Ordinarily, it is in the national interest to expedite exports of CCC-owned agricultural commodities.

Priority of U. S. Agricultural Export Programs

4. Except for donations in the case of disasters, the order of priority for export disposals should be:

Cash Sales
Short Term Credit
Barter
Long Term Credit
Foreign Currencies
Donations

Reasoning: Barter is a method of stimulating trade and can help to bridge the transition from sales for foreign currency (aid basis) to cash sales (commercial basis). The supplying country benefits from sustained employment and utilization of national resources which create wealth and stabilize its internal economy. Stockpiles of potentially useful hard goods have appreciated in value and are preferable to accumulations of soft currency or uncertain concessional credit returns.

Barter Export Rules

5. There should be only two commodity-country categories — "R" and "O". USDA should give consideration to the following criteria before assigning the "R" designation to a particular commodity-country combination:

The commodity is priced competitively for export to the particular country.

The country is in an excellent dollar exchange position.

The country has historically purchased a major part of its imports of the commodity from the U. S. (In the case of wheat and wheat flour, consideration also should be given to exports of other IWA countries.)

The country does not control imports of the commodity.

The U. S. is maintaining its export position for the commodity in the particular country and is likely to retain its position based on recent trends and current forecasts.

6. Agricultural commodities moving under barter contracts should be exported only to the "O" commodity-country destinations except that such exports should be permitted to "R" destinations (and to "R" destinations only) where Commodity Credit Corporation will receive reimbursement from other government agencies for the items acquired and for that part of the value of materials represented by the cost of domestic processing of foreign raw materials. When necessary to effect foreign policy or other government objectives, barter commodities exchanged for strategic materials should be allowed to move into "R" commodity-country destinations.

Reasoning (for Nos. 5 & 6): The barter program should implement the following national objectives:

Maximizing the distribution of our agricultural bounty into foreign channels

Stemming the outflow of dollars and gold and strengthening our balance of payments position

Aiding underdeveloped countries

Aiding our own depressed areas

A simple and flexible barter program which is practically self-regulating will increase both cash sales and total exports of agricultural commodities abroad. The restrictions of the current cumbersome barter program defeat their own purpose by opening the door to interference with normal commerce.

The proposed program identifies two kinds of destinations for barter exports. The first or "R" category of prime U. S. markets is limited to barter arrangements in which CCC is reimbursed by other federal agencies (or, to a lesser extent, for the value of U. S. processing included in stockpile material arrangements). The second or "O" category is open to agricultural exports under stockpile barters.

It is clear from prior experience with procurements for other agencies that the resultant barter exports, which are tantamount to dollar sales, move at a low discount rate and tend to maximize U. S. exports without interference with normal commercial exports or disruption of world prices. Dollars which otherwise would be spent abroad are retained in the U. S. and — via U. S. export firms making sales for dollars that otherwise would not have been made — more dollars are returned to the U. S. However, in view of the tremendous sums spent by other federal agencies on items procurable by barter, USDA should exercise caution with respect to the ability of the foreign market to absorb agricultural commodities. In the program for Supply Materials, CCC should be selective in procuring only those items which lend themselves to barter transactions with a minimum of complexity.

The urgent desirability of bolstering weak spots in our economy is sufficient justification, in the case of domestic processing, for authorizing export of agricultural commodities to "R" countries to the extent that U. S. processing has added to the value of materials acquired for the stockpile. While the Department of Agriculture does not receive immediate dollar reimbursement, Government expenditures are decreased to the extent that domestic processing provides employment and reduces the necessity for other forms of federal aid to "distressed" areas. The trend in the National Stockpile is to accumulate materials in more highly processed forms.

Other Views Expressed by Task Force Members:

a. Bilateral barters and those which designate a specific commodity and country should be preferred over completely open-end transactions.

Reasoning: USDA should prefer to know where agricultural commodities are to be exported under barter. Such advance information involving control of destinations has been the basis for preference in the current program and should continue to be preferred.

b. In partial disagreement with recommendation #6, it was recommended that (in addition to exports to "O" destinations) exports be permitted bilaterally to "R" destinations in the value of raw or processed materials taken from the source country, whereas agricultural commodities representing the value added by U. S. processing would be exported to "O" destinations. It was further recommended (and neither affirmed nor rejected by the

task force) that the material quotas established by the SSACB should not be used to limit the extent of bilateral barters for eligible materials from Latin American or other aid countries which the Department of State may wish to designate.

Reasoning: In permitting exports of agricultural commodities to "R" countries for part of the value of a strategic material barter, it is logical to relate the exchange to the value of raw material. This will facilitate foreign participation in barter transactions and, in some cases, may clear the way for exports which otherwise could not be made.

Bilateral barters with aid countries are direct and unostentatious economic aid and often can minimize the need for donations of dollars.

c. The representatives of the North American Grain Export Association recommended that exports of agricultural commodities should be excluded from countries designated "R".

Reasoning: The protection concept (of safeguarding usual marketings of the U. S. and of assuring that barters will not unduly disrupt world prices of agricultural commodities or replace cash sales of agricultural commodities) should apply equally to all barter transactions. It is better to broaden the "O" category instead of adopting separate rules for different kinds of barters. Further, if the USDA permits barter exports to "R" countries, the change in rules must be consistent with the specific purposes of other export programs such as the payment-in-kind program.

d. The representative of the American Cotton Shippers Association recommended retention of the current barter program as it applies to cotton (i.e., no lessening of restrictions as to eligible destinations for export of cotton under barter).

Reasoning: An enlarged barter program would displace or interfere with dollar sales and would disrupt the cotton market unless discounts are kept to a minimum. Only through increased consumption of cotton products is there a really additional market within an importing country. Temporary displacement of foreign cotton in one market usually means loss of another U. S. sale there or in some other user country.[1, 2]

7. Commodity-country designations should be established by the Department after consultation with the trade and such consultation should be repeated every six months to determine whether any changes are appropriate.

8. USDA should be more flexible in changing commodity-country designations where warranted and should review them at least quarterly, and more often if suggested by a substantial representation of the trade.

Reasoning (for Nos. 7 & 8): Prompt recognition of fluctuations in market conditions is necessary to maximize agricultural exports under barter.

9. The category of tied-in multilateral transactions should be eliminated.

Reasoning: Multilateral arrangements take considerable time to work out (permitting other countries to take over U. S. sales opportunities), are cumbersome, and appreciably add to discount rates. Although some multilaterals

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[1] The representative of the American Cotton Shippers Association, in commenting on the review draft of this Report, asked that the following statement be included in the final Report: "The proposal to permit barter commodities to go to "R" countries would largely eliminate any distinctions between countries and insofar as cotton is concerned would simply replace dollar sales. It would increase the cost of commodities purchased without any benefit to cotton or to the dollar sales, and at additional cost to the Treasury. The proposed application to the barter program of expenditures abroad by other Government agencies overlooks the statutory requirement of establishing additionality. An entirely false premise is embodied in the notion —
'It is clear from prior experience with procurements for other agencies that the resultant barter exports, which are tantamount to dollar sales, move at a low discount rate and tend to maximize U. S. exports without interference with normal commercial exports or disruption of world prices. Dollars which otherwise would be spent abroad are retained in the U. S. and — via U. S. export firms making sales for dollars that otherwise would not have been made — more dollars are returned to the U.S.' "

[2] The majority of task force members disagreed with this reasoning. They said that the United States should stay competitive in all markets and not become resigned to the idea that the United States cannot increase its sales to foreign markets.

have been beneficial to the country importing agricultural commodities, the multilateral requirement has resulted much more frequently in loss of opportunities to export.

10. There should be no "additionality" determination on individual barter offers; instead, the designation of countries as "R" or "O" would take into account the provisions limiting barter exports contained in section 303 of PL 480.[3]

Reasoning: The current requirement for "additionality" data is costly and time-consuming. Many foreign firms are reluctant to supply the information required. CCC has no means to ascertain that foreign firms live up to their assurances.

Operating Policies

General

11. A single announcement should be issued to cover barter acquisitions of each group of commodities — e.g., grain, cotton, tobacco, dairy products, etc.

12. An informal "barter manual" should be issued to consolidate all releases on barter policies and procedures, to be kept up to date by periodic revisions.

Reasoning (for Nos. 11 & 12): Information on the barter program should be available to the public in one set of documents, easy to read and easy to use.

13. U. S. processing of agricultural commodities should be permitted where USDA finds this feasible and in the best interest of the United States. With respect to grains, those members directly interested recommended third country processing be permitted.

Reasoning: It was the general consensus of the cotton group (American Cotton Shippers Association abstaining) that cotton products manufactured entirely in the U. S. made wholly from raw cotton produced in the U. S. be made eligible for export in CCC barter transactions. USDA should credit the contractor with barter exports of cotton products on a cotton-utilized basis (in accordance with the formula applicable to the Cotton Products Export Program).

The present barter rules permit exportation of wheat flour in lieu of wheat acquired from CCC. USDA should give most careful consideration to the preparation of a list of products (of all agricultural commodities available for barter) which barter contractors would be authorized to export in processed form.

A number of underdeveloped countries do not have sufficient equipment for processing and therefore do not import agricultural commodities except where arrangements are made to deliver in processed form. The exportation of processed commodities under barter would not only be beneficial to the people of underdeveloped countries, but this new export outlet for agricultural commodities domestically processed would be beneficial to distressed labor areas in the U. S.

Exportation of agricultural commodities which are processed in third countries may in some cases facilitate exports of grains or make them feasible.

Cotton

14. Cotton for barter use should be made available at the export market price.

Reasoning: (1) Cotton is available under other USDA programs at market price and should be given equal treatment under barter. (2) Although CCC's inventory is down to 2 million bales, it is probable that there will be 5 million bales in inventory by the end of the year. To lock them up (by pricing at 115% of the current support price) is to have them deteriorate in inventory.

Other Views Expressed by Task Force Members:

[3] It was the consensus of the task force that, if "additionality" is to be continued, then USDA should determine when it exists without obtaining data from offerors because the Department has the requisite statistics and is in a better position than any offeror to assess the desirability of barter exports to a particular destination at any particular time.

a. The representative of the Plains Cotton Cooperative Association favored the recommendation with respect to loan and free market stocks, but opposed it for CCC inventory stocks.

Reasoning: The export of new stocks of cotton reduces quantities to be taken over by CCC. Ready availability of CCC stocks for barter export will tend to leave new stocks unsold, thereby requiring take-over by CCC. The cyclical process of take-over and export is wasteful and inefficient.

b. The representative of the American Cotton Shippers Association opposed the proposal.

Reasoning: The Association expressed general opposition to barter of cotton on the grounds that it will not increase cotton exports but will replace cash sales and disrupt markets. As for disposition of CCC stocks, the ACSA interprets the proposal as a 15% reduction in price, favoring barter contractors in bidding for CCC stocks. Only barter contractors, not cash customers abroad or domestic mills, would have access to CCC stocks at market. If CCC stocks are to be sold at less than the 115% required by statute for unrestricted use sales, those stocks should be available for competitive bids by all would-be purchasers.

15. Export of either the identical bales of cotton purchased from CCC or, in substitution therefor, an equal quantity of cotton should be permitted. (ACSA abstaining.)

Reasoning: The requirement that identical bales be exported has been the major obstacle to export of cotton under barter. The disparity in classification between CCC-owned cotton as catalogued and as delivered (as evidenced by the extent and degree of reclassifications) practically excludes cotton export firms from participation in the barter program.

16. All cotton of 1960 and prior crops acquired for barter from CCC stocks on and after August 1, 1961 should be subject to reclassification by USDA and final settlement based upon such reclassification.

Reasoning: This is authorized by the current CCC cotton sales program and is equally desirable in future programs.

17. The present one cent per pound allowance to convert the CCC exchange value from an in-store warehouse pricing basis to an f.o.b. vessel pricing basis should be increased to more adequately cover the average cost.

Reasoning: The present regulations of USDA continue to discriminate against cotton in favor of wheat and other grains in the method of establishing CCC exchange values. The exchange value of cotton is established on the basis of delivery ex warehouse, plus an allowance of one cent per pound which is less than the actual cost of placing cotton f.o.b. vessel. The exchange value of wheat is established by CCC on the basis of CCC making physical delivery f.o.b. vessel at port of exit.

18. Mandatory use of USDA FORM A classification was opposed unanimously by cotton trade members.

Reasoning: Undue expense (approximately $1 a bale) to the exporter would tend to make barter cotton uncompetitive in price abroad and such classification generally is not useful to foreign buyers.

19. If discounts become excessive, substantially disrupting world price structures, cotton should be taken out of the barter program.

Reasoning: The cotton group advised unanimously that exports of barter cotton at excessive discounts would be incompatible with normal U. S. cotton marketing.

Tobacco

20. USDA should permit export of tobacco within 9 months of acquisition (instead of 6 months).

Reasoning: Depending on the special requirements of foreign tobacco firms, it is important to the U. S. exporter to have the option of subjecting tobacco stocks to "sweating". An additional 3 months between acquisition and export will permit maximum flexibility in this regard.

21. Consideration should be given to allowing the exportation of "blackfat" in satisfaction of barter export obligations for tobacco.

Reasoning: This would promote additional exports to African countries.

Grain

22. Barter contractors should have the options of purchasing grain either f.o.b. vessel or in port position rather than f.o.b. cars at country point.

Reasoning: A contractor who is required to take delivery of grains f.o.b. cars at country point may suffer losses because of deterioration of grains (including loss in grade) between point of origin and port of export, late arrival at port, and left-over quantities which become a liability to the contractor.

Materials

Strategic Stockpile Materials

23. Except under conditions of national emergency, all strategic stockpile acquisitions should be accomplished through barter. To the extent feasible, all upgrading of material in the strategic or supplemental stockpiles should be accomplished through barter.

Reasoning: It is better to pay for materials, or upgrading, with agricultural commodities than with dollars. There is a potential saving to U. S. taxpayers and, in many cases, a reduction in federal dollar aid to distressed areas of the U. S. The limited instances in which the agricultural commodities go to "R" countries are those in which it is most probable that dollar savings will counter-balance possible cash sale displacement.

Other Views Expressed by Task Force Members:

a. Processing or upgrading should apply only to additional raw materials acquired through barter, and not to materials already in the stockpiles.

Reasoning: Whether CCC has or does not have the legal authority to barter for services such as upgrading (which is understood to be in question), acquisition of materials in the upgraded form will result in the disposal of greater quantities of agricultural commodities.

Supplemental Stockpile Materials

24. The supplemental stockpile should be called "economic survival stockpile". The basic concept for determining eligibility of barter materials should be that of providing for needs of a have-not nation in the future.

Reasoning: The name "supplemental stockpile" conveys little meaning. The materials in this stockpile represent an important reserve of natural resources in which the U. S. is or will be seriously deficient and which will be of incalculable value in the future.

25. Selection of economic survival stockpile materials should be guided by the following considerations:

a. Substantial quantities of the material will be useful to the U. S. economy in the future, not obtainable from indigenous production.

Reasoning: Many of the world's natural resources essential to a healthy peacetime economy, as well as in time of war, are of known limited occurrence in the Earth's crust, and a great many of them are not produced in the U. S. in sufficient quantities to meet our present or future needs.

b. Surplus materials will be removed from world markets without increasing productive capacity.

Reasoning: In times of temporary oversupply of some minerals and metals, barters for stockpiling can remove excesses from the world market and thereby bolster world and domestic prices to relieve economic distress in friendly countries and prevent severe drops in domestic market prices which could cause shutdowns of mines and smelters, some of which cannot economically be reopened. Care should be exercised not to encourage new production.

c. Employment will be created or maintained in distressed or labor-surplus areas of the U. S. through use of domestic processing facilities.

Reasoning: If barter for materials otherwise eligible for stockpiling can, by re-

quiring domestic processing, give business to U. S. plants operating substantially below capacity, it will reduce the need for direct relief in areas of labor surplus and help our economy realize its full growth potential.

d. Maintenance of the domestic mobilization base.
Reasoning: Many U. S. plants producing items essential in time of war are located in distressed areas and operating far below capacity. Barter for selected domestically processed materials can help continue these plants in production and thus keep our mobilization base intact, while avoiding cash subsidies.

e. Pre-emptive buying.
Reasoning: When pre-emptive buying is desirable from the standpoint of national security, barter can save dollars which otherwise would be sent abroad for this purpose.

f. Countering Soviet Bloc economic penetration.
Reasoning: There is a pressing need for the free world to meet communist bloc economic penetration via the establishment of trade relations with underdeveloped or newly independent countries. Barter offers opportunities to develop such relations where convertible currency is unavailable.

Soviet bloc countries in trade with other countries are using Trojan-horse barter as a shield for political-economic penetration. As such, it gives the communist bloc countries a deceptive method of establishing a foothold in a given country for active propaganda and subversion. The task force unanimously recommended that USDA use the barter program to counter-attack any such moves with appropriate action or to aggressively pursue a policy of developing our trade to forestall such moves.

g. Assistance in economic development of less developed countries.
Reasoning: Regardless of communist penetration, barter can and should be used to assist in the economic development of friendly countries through trade instead of aid, thus engendering sounder relations and mutual respect.

h. Achievement of an unusually advantageous disposal of agricultural commodities.
Reasoning: Occasionally, an opportunity presents itself to make a particularly desirable agricultural disposal, either in terms of the commodity being moved or its effect on foreign relations. In such cases, serious consideration should be given to acceptance under barter of a product of the country concerned which may not have all of the most desirable attributes for stockpiling.

26. SSACB should be reconstituted with Barter and Stockpiling Manager as chairman, with representation limited to OCDM, Interior, Commerce, State, Defense, GSA, and USDA. A revised list of materials should be issued every 6 months.

Reasoning: The major purpose of the SSACB is to give advice with respect to materials. It should be composed of agencies which have a direct interest and expert knowledge concerning the selection of materials.

Fluctuations in requirements for materials in the U. S. and the supply of these materials in foreign countries require that the SSACB issue material objectives at least every 6 months so as not to cause disruption of material markets and to allow the barter program to be more effective in the objectives previously set forth.

27. Materials other than strategic materials should be acquired through barter for the supplemental stockpile or for other purposes.

Reasoning: Adherence to the usual concept of a "strategic" material should not preclude acceptance in barters of "non-strategic" materials which meet statutory criteria. This applies to all the considerations listed above, but is especially pertinent to considerations f., g., and h. If a country infected by communist traders does not produce a material normally regarded as strategic, we should try to find outlets (stockpiling, if appropriate; others, such as supplying cocoa or coffee to needy people, where stockpiling may not be feasible)

for other products of the country, so that its trade may be oriented toward the free world. Where economic development assistance to a friendly country is contemplated or desirable, or where an especially advantageous agricultural disposal can be made, there can be over-all strategic advantages in flexibility when determining what materials should be accepted in exchange for agricultural commodities.

28. Both domestically processed and domestically mined materials should be eligible for barter. Domestically mined materials should only be accepted from distressed areas. The USDA should seek the general advice of Commerce where barter is used as an instrument to assist distressed areas.

Reasoning: The present barter program discrimination against domestic processing is illogical and, in our current situation of underemployment and part-use of productive capacity, indefensible. Although the general concept of barter involves the exchange of commodities produced in the U. S. for raw materials of foreign origin, it makes sense to accept materials produced domestically in distressed areas and processed domestically if to be acquired in processed form.

Other Agency Procurement Barters

29. Invitations to bid should clearly state that the items will be paid for only with agricultural commodities.

Reasoning: Experience has shown that where offers are solicited for payment either in cash or in agricultural commodities, it is difficult or impossible to get bids on the latter basis. This is to be expected, since there is little profit to be made on the agricultural commodities and the arrangement for their acquisition and exportation complicates the transaction. The choice between accepting cold cash or agricultural commodities is not a hard one. On the other hand, experience also has shown that, when bidders know they can be paid only in commodities, they will compete as strenuously on this basis as on a cash basis even though their profits necessarily suffer.

30. In general, only physical goods and materials should be obtained through barter.

Reasoning: Barter procurement of services, especially long term arrangements, can become extremely complex and fraught with uncertainties. There is ample room for a substantial barter contribution in the area of physical goods and materials. This is not to say that a transaction involving services should not be considered where for other reasons it is in the national interest.

31. Contract values should be at least $100,000.

Reasoning: In general, administrative costs and U. S. business firm operational costs to export agricultural commodities make it uneconomical to conclude other agency procurement barters for amounts less than $100,000.

Contracting and Contract Administration

32. OBSM and not GSA should determine the acceptability of the prices of materials offered in exchange for agricultural commodities. An acceptable price for any material offered should be the "fair market price" of the material. By "fair market price" is meant the price at which a well-informed buyer would be willing to buy and a well-informed seller would be willing to sell under similar circumstances.

Reasoning: Should OBSM make its own determination concerning the acceptability of prices at which barter materials are offered, the conclusion of barter transactions would be vastly facilitated with a substantial savings to USDA through reduction in the transfer of funds to GSA for performing this service. It would permit OBSM to give weight to factors which are of no concern to GSA. Thus, the desirability of a particular barter transaction from the standpoint of foreign policy or the maintenance of a market for U. S. agricultural commodities could be considered in arriving at price determination. At present, GSA normally does not determine prices for stockpile materials except in connection with barter transactions; therefore the proposed transfer of the pricing function would not constitute duplication of work done by GSA.

The Government should acquire materials through barter at a fair market price. This is

not necessarily the lowest possible price which an economically hard-pressed foreign supplier might be willing to accept, but it is a price which would take account of the worthwhile objectives of the barter program. By taking this action the USDA would clearly indicate that it assumes responsibility for direction of the barter program placed upon it by the applicable statutes.

33. OBSM should assume responsibility for decisions involving the ocean and inland transportation of materials. GSA should continue to handle inspection, receipt, and storage of materials acquired through barter for the supplemental stockpile.

Reasoning: These functions are now performed by GSA which is reimbursed by USDA. It is believed that USDA is competent to make the various determinations contemplated by this recommendation, such as the availability of U. S.-flag vessels under P. L. 664, fairness and reasonableness of ocean freight rates, and decisions necessary with respect to the movement of barter materials from ports of entry to stockpile locations. The assuming of these responsibilities by OBSM would make for a more orderly administration of the barter program with a resulting savings in time and reduction in administrative expenses. The actual responsibility would then rest where the legal responsibility for the barter program lies.

34. USDA should promptly announce a clear-cut policy to the effect that under barter contracts it will absorb the U. S.-flag differential, and that this differential will not be an item to be considered in the establishment of an exchange value.

Reasoning: Published market prices or prices at which bulk ore business is being transacted in the trade are not based on 50% shipment on U. S.-flag vessels but on much lower foreign-flag rates. It is therefore unjustified and unrealistic to ask barter contractors to assume a U. S.-flag differential with a price based on foreign-flag rates.

35. Long term barter contracts should be written so as to permit adjustments in the exchange value of the material made necessary by factors beyond the contractor's control.

Reasoning: Precipitate social, economic and political changes are taking place in the less developed countries of the world. For the most part, these countries are the ones which produce the kinds of bulk materials acquired under barter contracts. As a result of these changes, labor costs and taxes may be substantially increased by government decree. Consequently, it may be impossible sometimes for a barter contractor to enter into long term commitments without providing in his offer for a variety of possible increased costs connected with the material. Providing for such potential increased costs inflates the offering price of the material to the mutual disadvantage of contractor and Government.

36. Prompt action should be taken on all correspondence and communications, including action on offers received. If final action cannot be taken promptly, acknowledgment should be made indicating when action will be taken.

Reasoning: Barter contractors operate in a highly competitive field. Barter proposals are based upon volatile trade opportunities. Therefore, the need for prompt action on barter offers received and correspondence and communication relative to barter offers and to barter contracts is imperative. Adoption of various recommendations contained in this Report, including those relating to increases in personnel and reductions in the number of clearances will, it is believed, go a long way towards eliminating delays which have occurred in the past.

37. Barter contracts should be written within the shortest possible time after the acceptance of an offer. In any event, no more than 20 working days should elapse between the date of the acceptance and the transmitting of the formal barter contract to the contractor.

Reasoning: Delays in the signing of a barter contract after an offer has been accepted create an unnecessary expense to the barter contractor. For example, only 90% credit for the value of materials delivered will be allowed against the value of agricultural commodities taken until a barter contract is signed. Further, the uncertainty attendant upon long delays in signing barter contracts creates other problems, both for the barter contractor and the Government. The adoption of the

recommendations contained in the Report should do much to reduce the period between the acceptance and confirmation of a barter offer and the preparation and transmitting of a formal contract. However, it is believed that much of the responsibility for delays in the past has been occasioned by unnecessarily inflexible thinking on the part of the Government lawyers.

38. Provision should be made for modifying signed barter contracts to accommodate technical, but not substantive, defaults without consideration flowing to the government. By technical default is meant situations such as failure by the contractor to make delivery on a specified date, delivery actually being made within a few days.

Reasoning: The administration and execution of contracts should be more equitable. As long as a contractor performs substantially in accordance with provisions of a contract, a technical default (such as slight delay in delivery or insignificant deviations from the specifications, etc.) should not be occasion for lengthy legal opinions and administrative requests for payment of "consideration" which is often out of proportion to the nature of the slight deviation on the part of the contractor. There is a definite need for a determined effort to settle some of these minor day-to-day operating problems promptly through administrative determination.

39. USDA payment-in-kind certificates for cotton should be eligible for barter program financial coverage under cotton acquisitions.

Reasoning: Cotton certificates are redeemable in dollars and can be used to pay off loans and therefore should be substitutable for other financial coverage.

40. Contracts should provide that, when proof of export and delivery requirements are satisfied, the contractor be paid interest on the 10% of credit which is withheld by CCC until the contract is signed; alternatively, full credit should be allowed at such time.

Reasoning: Part of the letters of credit posted as a financial guarantee are held in abeyance until the contract is signed, in many cases months after the agricultural commodity has been exported and the materials delivered to CCC. This is a financial hardship imposed on the contractor which prevents use of his money without compensation.

As an alternative to compensation in the form of interest paid to the contractor, full credit should be allowed the contractor at the time export and delivery commitments are fulfilled.

41. CCC should expedite transfer of funds, which are posted as financial guarantee for delivery of agricultural commodities, from CCC regional offices to Washington, D. C., for refund at the time material is accepted.

Reasoning: Delay in transferring funds ties up contractors' capital, therefore transfers should be expedited.

42. Contracts should stipulate that the contractor have the right to arbitration of disputes (e.g., weighing, inspection, etc.).

Reasoning: Contracts presently include statements that the Government's decisions shall be final except as otherwise provided in the contracts. It is only equitable to allow contractors to seek a neutral judgment concerning contractual disputes.

GENERAL RECOMMENDATIONS

Publicity

43. A monthly report should be issued giving the following information about total contracts signed during the month:

Items acquired and dollar value of each
Countries of origin
Where available, commodities being exported and destinations

Reasoning: Names of contractors and information on individual contracts should remain confidential. Individual private business arrangements, if made public, could unfavorably affect the outcome of barter commitments. However, basic information about barters should be made public insofar as is proper and information should be published monthly as recommended.

Other Views Expressed by Task Force Members:

a. Sufficient publicity is now being given to barter contracts.

Reasoning: Monthly reports would not be more useful than the present quarterly barter reports and conceivably could make it more difficult for barter contractors to finalize arrangements to import materials.

Clearances

44. As he deems necessary, the Secretary of Agriculture should consult with other U. S. agencies to obtain advice and comments on the over-all barter program. However, individual offers should not be cleared with other agencies.

Reasoning: The Secretary of Agriculture should not allow other agencies to veto individual barter transactions. The final determination to accept or reject an offer should remain in the USDA recognizing the over-all objectives of the barter program, with due consideration to advice from other agencies. Clearances of offers should be held to a minimum both in and out of the Department, thereby decreasing delays which cause some offers to be withdrawn or altered to a large degree.

Co-ordination With Other Agencies

45. During development of Title I, Title IV, or other aid programs, the possibility of barter should be examined and, if feasible, should be given priority in the negotiations with the country concerned. In concluding Title I or Title IV agreements, care should be exercised not to jeopardize the market for agricultural commodity exports to the country concerned under existing barter commitments.

Reasoning: The USDA reorganization has established a framework within which there can be closer cooperation between barter and other export programs. It has been desirable and it is now practicable to arrange for exports of agricultural commodities under federal programs so as not to disrupt existing barter commitments or preclude future barters with a country where the possibility for barter exists.

Other Views Expressed by Task Force Members:

a. No priority should be given to barter transactions.

Reasoning: The representative of the American Cotton Shippers Association recommended that USDA efforts be directed toward using foreign currency counterpart funds to purchase desired materials from or through the recipient country of P. L. 480 aid rather than giving any priority to barter transactions.

Formalization of Barter Policies and Procedures

46. Barter policies and procedures should not be formalized to the extent of publication in the Federal Register.

Reasoning: Flexibility in negotiating barter offers is of greater importance and would be inhibited by such publication.

Organizational Changes In OBSM

47. One individual should be assigned the responsibility for determining the fair market price of materials being acquired. In addition, this individual should have supervisory responsibility for all contract negotiation and administration.

Reasoning: This recommendation assumes the adoption of other recommendations relating to the transfer of certain functions from GSA to OBSM. It contemplates the centralization of responsibility and authority for contract negotiation and administration in one individual. This would permit the individual to become expert in matters of prices, negotiations, and the carrying out of barter contracts. Such arrangements would facilitate the negotiation and signing of barter contracts and would permit greater flexibility in adjusting the administration of barter contracts to new and changed situations which have occurred after the contracts are signed.

48. One qualified individual on OBSM staff should act as legal advisor to make recommendations with respect to legal matters arising during negotiation and to facilitate the signing of barter contracts and especially clearance of contracts through OGC.

Reasoning: In the past too much time has been spent on clearing barter contracts through OGC. A full-time legal advisor (whether hired

by OGC or by OBSM) could act on legal matters arising during negotiation and facilitate the signing of barter contracts, especially clearance of contracts through OGC.

49. OBSM should be provided with adequate office space.

Reasoning: The nature of the barter program is such that competing offerors and contractors must meet regularly with personnel of OBSM. Because of inadequate office facilities, it has been almost impossible to preserve the confidential relationship which should exist between such personnel and members of the private trade. Each barter offeror and contractor has the right to expect that the details of his proposals will not become known to his competitors. A barter contractor cannot afford to explain his offer or his problem to OBSM personnel in hallways or in the same office where a competitor is waiting. Therefore, adequate office facilities must be made available to OBSM.

50. Adequate personnel should be assigned to OBSM to perform the functions of that office.

Reasoning: As stated elsewhere, time is of the greatest significance to the private trade in completing arrangements contemplated by barter offers. Also, time is very important in carrying out day-to-day operations under barter contracts. For example, a favorable quotation for ocean transportation of bulk material if not accepted within a matter of hours will not be available. Therefore, it is very important to barter contractors that adequate staffing be provided the OBSM so that it can efficiently perform all of the varied functions of that office. Should the recommendations contained in this Report be adopted and certain functions be transferred from GSA to OBSM, including the determination of the acceptability of market prices of materials, the need for additional personnel to perform the related activities is obvious.

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